# Stratabound MINERALS CORP.

## Annual Report 1994

# Corporate Profile

Stratabound Minerals Corp. is a Canadian natural resource company with base and precious metal properties in New Brunswick, British Columbia, Ontario and the Northwest Territories, and oil properties in Saskatchewan.

The company's New Brunswick holdings represent a dominant land position in the world-class Bathurst base metal mining district. Stratabound's holdings include the CNE Mine (zinc-lead-silver-gold), and the Captain (copper-gold) and Taylor Brook (lead-zinc) massive sulphide prospects, as well as claims adjoining the north boundary of the Stratmat Mine.

The Cygnet project is directed towards identifying large-scale base metal mineralization on the company's extensive land position in northeastern British Columbia. High-grade zinc-lead-silver mineralization has been identified in three trenches located near exceptionally strong lead and zinc soil anomalies covering large untested areas.

The company's most recent acquisition is a 5,680 acre nickel-copper prospect 45 miles west of Timmins, Ontario, near the Montcalm nickel deposit. The property contains a large number of strong geophysical targets within rock units similar to those at Montcalm.

The company currently has working interests in four oil wells near Handsworth, Saskatchewan, as well as in additional undeveloped lands.

Stratabound was incorporated in 1986 and has traded on the Alberta Stock Exchange since September 1987. Outstanding share capital at December 31, 1994 comprised 4,024,793 shares.

# Report to Shareholders

In 1994 Stratabound Minerals Corp. participated in the drilling of four oil wells near Handsworth, Saskatchewan, and one dry well in British Columbia. The company's net oil production increased from 661 barrels in 1993 to 6,757 barrels in 1994. Stratabound's developed proven reserves are estimated at 37,000 barrels of recoverable oil (26,600 barrels net of all royalties and production taxes). The company also has a 35% working interest in a quarter-section of land adjacent to the producing wells.

We are working towards an active summer of exploration on our mineral properties, beginning with a four to six hole drilling program on the CNE and Taylor Brook claim blocks in New Brunswick. A New Brunswick exploration incentive grant will cover 80% of costs.

Our newly acquired property in the Montcalm area near Timmins, Ontario has tremendous exploration potential. We are planning a program of ground geophysics and drilling to follow-up numerous strong airborne EM conductors within favourable gabbroic rocks. Our objective is a large nickel-copper orebody similar to the nearby Montcalm deposit in equivalent rock units (see map on page 6).

Preliminary work on the Cygnet project (Swan property) in British Columbia identified a number of extensive areas containing very high levels of lead and zinc in soil. These impressive geochemical anomalies compare favourably in both strength and extent with those associated with world-class lead-zinc-silver orebodies elsewhere in the Canadian Cordillera. Numerous lead-zinc-silver and barite occurrences have been found on the Swan property, including mineralization grading 15.7% zinc, 0.4% lead and 0.9 oz/ton silver across a trenched width of 19 feet. Exploration plans for this property are described in the Report on Operations.

We are reviewing the economics of re-opening the CNE Mine. Since this time last year the price of zinc has improved by about 8%, to US$0.47 per pound. LME zinc inventories remain large, but have shrunk by 20% over the past 12 months. Lead price has improved by 21% to US$0.26 per pound, driven by strong demand in the automotive sector in the United States and Europe. Silver is virtually unchanged at US$5.39 per ounce. While current lead and silver prices are quite good, it is zinc which has accounted for more than 75% of revenues from the mine. We expect moderate increases in zinc and lead prices over the next 18 months. A decision regarding the feasibility of resuming production at the CNE Mine this year will be made shortly.

S. J. Stricker, P.Geol.,
*President*
*May 15, 1995*

# Report on Operations

## OIL PROPERTIES

In 1994, the company's net oil production increased from 661 barrels to 6,757 barrels. Estimated developed proven reserves are 37,000 barrels of recoverable oil (26,600 barrels net of all royalties and production taxes).

### *Handsworth Area, S.E. Saskatchewan*
### *NE 1/4 Section 24, Twp 10, Rge 7 W2M*

The 9-24 well was completed in February, 1994 and produced 29,590 (5,622 net) barrels of oil to year end. A second well, 10-24, was completed in September but has not produced as expected due to a poor cement job during the completion of the well. The well produced 3,374 (641 net) barrels of oil to year end. Stratabound has a 19% interest in these two wells, increasing to 41.5% after payout.

The third and fourth wells, 15-24 and 16-24, were drilled late in the year and produced at 32 and 36 barrels of oil per day initially. Stratabound has a 25% working interest in these wells, increasing to 28.5% upon payout.

A pipeline is planned for 1995 to tie the four wells into a nearby processing facility. This will eliminate trucking charges and will substantially reduce the costs associated with treating the produced fluid. It is estimated that the netback after deducting all expenses will improve from $5.41 to $10.52 per barrel with the pipeline in operation. Gross oil production is estimated at 146.5 barrels per day (30.5 net to Stratabound) following the construction of the pipeline, with Stratabound's share of production increasing after payout of the 9-24 well.

Stratabound has also obtained a 35% working interest in the NW 1/4 of Section 24-10-7W2M adjacent to the producing acreage and it is expected a well will be drilled on the prospect by mid 1995.

### *Manor Area, S.E. Saskatchewan*
### *N 1/2 Section 6, Twp 7, Rge 1 W2M*

Oil production from the 12-6 well was suspended in August as it was no longer economic to continue with the operation. Stratabound maintains a 2.4% interest in a battery which serves other wells in the area, and estimates its share of net revenue from the facility to be in excess of $1,000 per month. No further development of the area is expected.

### *Covington Area, S.W. Saskatchewan*
### *NE 1/4 Sec 23 & SW 1/4 Sec 25, Twp 13, Rge 18 W3M*

Stratabound continues to hold a 20% working interest in these lands believed to be prospective for medium gravity crude oil in the Upper Shaunavon Formation. No plans have been made to drill the prospect.

### *Beatton River Area, N.E. British Columbia*
### *94-H-2, Block J, Units 27, 37 &47*

A test well was drilled which was dry and abandoned. No follow up drilling is proposed.

## BASE METAL PROPERTIES

### *Bathurst Camp Properties, New Brunswick (5,867 acres)*

Stratabound's New Brunswick properties are all located in the heart of the world-class Bathurst base metal camp. The company's holdings include the CNE Mine, Captain, Taylor Brook, Stratmat North and Stratmat West properties.

The **CNE Mine** is a small, near-surface zinc-lead-silver-gold deposit which generated substantial revenues for the company from an open pit operated from 1990 to 1992. The major revenue component of the ore is zinc. Reserves have been shut-in since 1992 during a lengthy period of depressed zinc prices.

Current geological reserves at CNE amount to 161,508 tonnes averaging 7.79% zinc, 2.84% lead and 90.1 g/t (2.63 oz/ton) silver, plus 30,850 tonnes of 1.27% copper and 0.68 g/t (0.02 oz/ton) gold. Remaining mineable open pit reserves are estimated at 75,490 tonnes above the 32 metre level, averaging 7.30% zinc, 2.57% lead and 88.0 g/t (2.57 oz/ton) silver.

The recent re-opening of Noranda's Heath Steele operation, formerly the concentrator for CNE ore and the purchaser of CNE concentrates, allows us to consider resuming mining of the CNE deposit. A decision on the feasibility of resuming production will be made during the second quarter .

The company has initiated a review of its Bathurst area projects, in order to assess the value of a number of targets with obvious base metal potential. Most of these have received little work since the 1988 CNE discovery that focused the company's efforts on exploration, development and mining of that deposit.

One such target was outlined in 1988 on the **Taylor Brook** property, where Stratabound conducted geophysical surveys on a partially drilled sulphide zone (325,000 tons at 2.3% zinc/lead) and traced the zone west.

Trenching indicated that grades were increasing to the west, and revealed great thicknesses of mineralization. Three parallel zones of highly weathered massive sulphides with a combined width of up to 160 feet were exposed in a new zone within a fold nose west of the known reserve area.

Several high grade samples were collected, which assayed up to 7.1% zinc/lead and 3.65 oz/ton silver. Overburden and weathered bedrock samples assayed 0.01 to 0.04 oz/ton gold in grab samples within a 50 square metre area.

The Taylor Brook target has excellent near-surface potential, yet remains virtually unexplored. The surface dimensions of the sulphide zones suggest that the fold structure has the potential to host 1,000,000 tons of sulphide-bearing rock to a depth of only 40 metres.

We are planning a four to six hole drilling program this summer to test the Taylor Brook fold structure, as well as two geological targets located within two hundred metres of the CNE Mine, for zinc, lead, silver, gold and copper.

The **Captain** property hosts a significant massive sulphide occurrence of 197,220 tons (geological reserve) grading 2.12% copper, 0.017 oz/ton gold and 0.28 oz/ton silver. No work is currently planned for the Captain, or for the **Stratmat North** or **Stratmat West** properties.

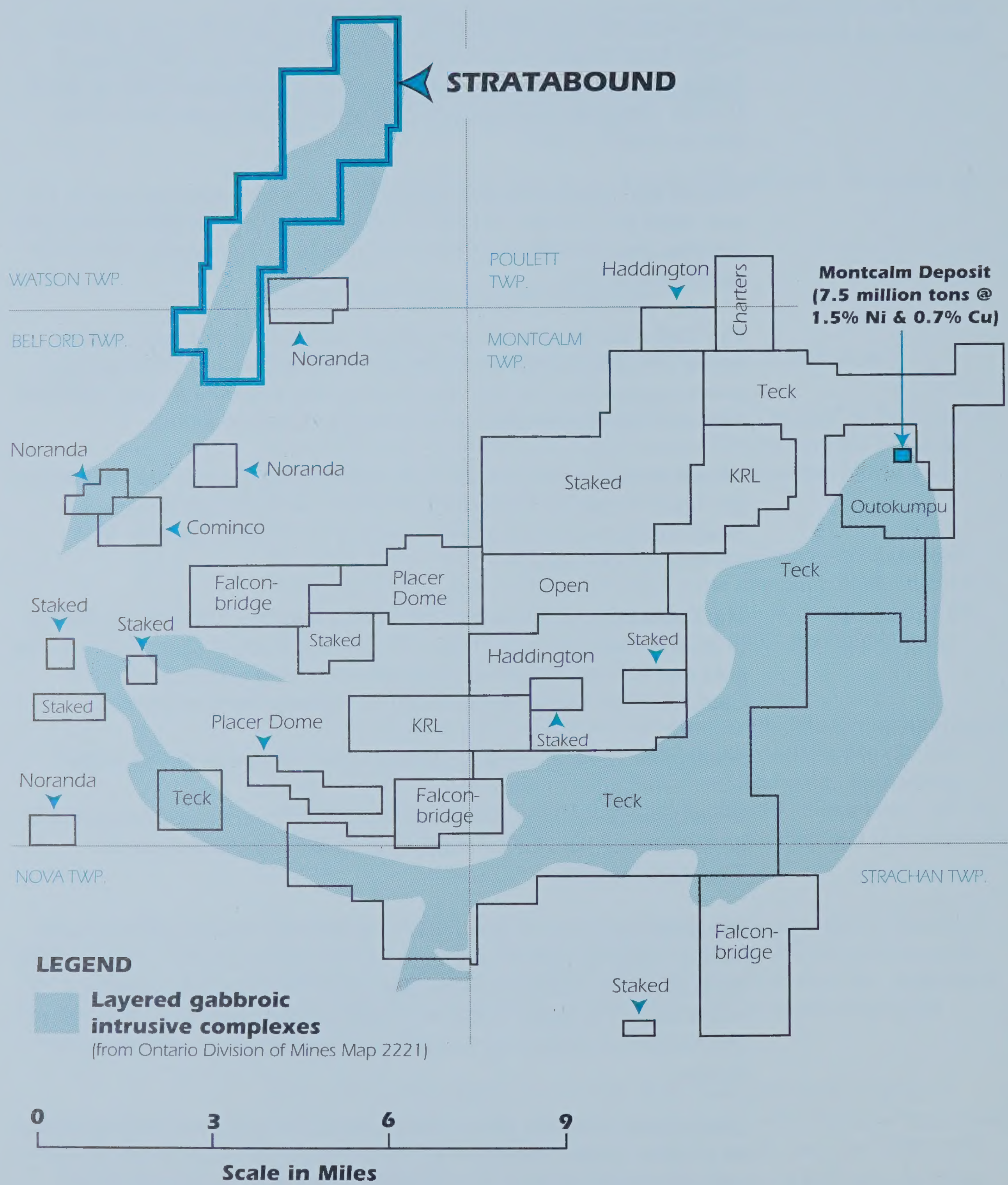
## *Montcalm Area Nickel-Copper Project, Ontario (5,680 acres)*

Stratabound has optioned a 5,680 acre nickel-copper prospect situated in Watson and Belford Townships, 45 miles west-northwest of Timmins, Ontario.

The property covers a seven-mile length of favourable gabbroic rocks having a high potential for nickel-copper deposits similar to the nearby Montcalm (Outokumpu) nickel deposit (7.5 million tons grading 1.5% nickel and 0.7% copper prior to considerable additional recent drilling). The Montcalm deposit is currently undergoing pre-feasibility project review.

Government airborne geophysical maps show sixty-two EM anomalies on mineral claims controlled by Stratabound, of which 35 are of equal strength or greater than the two anomalies reflecting the Montcalm deposit.

## Property Map of the Montcalm Area



Most of these EM conductors occur within strong magnetic anomalies and represent potential nickel-copper targets within the gabbroic intrusive complex, while the remainder occur within flanking volcanic rocks having copper-zinc potential. Several major mining companies are currently conducting exploration (drilling and grid survey) programs nearby for both types of mineral deposit.

Exploration on Stratabound's ground will be directed primarily toward the discovery of large magmatic copper-nickel sulphide orebodies similar to those comprising the Montcalm deposit (but potentially with higher grade in less fractionated portions of the complex), and also similar to the gabbroic deposits at Lynn Lake, Manitoba (20 million tons grading 1.02% nickel and 0.54% copper recovered).

Stratabound can earn a 100% interest in the property, subject to a 1% net smelter return royalty, by paying the optionors $15,000 cash and 50,000 shares on signing, and making three subsequent annual option payments of 50,000 shares each. The agreement is subject to regulatory approval.

### *Cygnet Project (Swan and Rap Properties), Omineca Region, British Columbia (16,494 acres)*

The Swan and Rap properties comprise 16,494 acres located south of the Kechika Trough and Selwyn Basin in northeastern British Columbia.

High-grade zinc-lead-silver mineralization has been identified in two areas 12 kilometres apart along a series of exceptionally strong, coincident lead-zinc soil anomalies occurring throughout a 15-kilometre length of favourable Paleozoic sedimentary rocks within the Swan property.

These anomalies are impressive, comparing favourably in strength and extent with soil anomalies associated with world-class lead-zinc-silver orebodies elsewhere in the Canadian Cordillera, including the Cirque (Stronsay) and MacMillan Pass (Tom) deposits.

Numerous lead-zinc-silver and barite occurrences have been found on the Swan property, including mineralization grading 15.7% zinc, 0.4% lead and 0.9 oz/ton silver across a trenched width of 19 feet.

The exploration program for the Swan property calls for geological mapping, accompanied by geochemical and geophysical grid surveys (particularly over large unexplored areas underlain by Earn Group rocks), and drill testing of currently known high-grade mineralization and shallow geophysical targets within mineralized areas.

# Auditors' Report

***To the Shareholders of Stratabound Minerals Corp.***

I have audited the balance sheet of Stratabound Minerals Corp. as at December 31, 1994 and the statements of income and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
March 30, 1995

Chartered Accountant

# Balance Sheet

*December 31, 1994*

## Assets

| | 1994 | 1993 |
|---|---|---|
| *Current* | | |
| Cash & short term investments | $ 353,506 | $ 498,356 |
| Accounts receivable | 187,725 | 17,337 |
| | 541,231 | 515,693 |
| *Reclamation Bonds* | 19,050 | 11,550 |
| *Property and Equipment (note 2)* | 1,886,329 | 1,654,026 |
| | $ 2,446,610 | $ 2,181,269 |

## Liabilities and Shareholders' Equity

| | 1994 | 1993 |
|---|---|---|
| *Accounts Payable and Accrued Liabilities* | $ 329,772 | $ 69,690 |
| *Reclamation Provision* | $ 11,048 | 10,000 |
| *Deferred Income Taxes* | — | 20,000 |
| | 340,820 | 99,690 |
| *Shareholders' Equity* | | |
| Share capital (note 3) | 2,180,428 | 2,004,928 |
| Retained earnings (deficit) | (74,638) | 76,651 |
| | 2,105,790 | 2,081,579 |
| | $ 2,446,610 | 2,181,269 |

Approved by the Board:

Director

Director

See accompanying notes to financial statements.

# Statement of Income and Retained Earnings (Deficit)

*Year ended December 31*

| | 1994 | 1993 |
|---|---|---|
| **Revenues** | | |
| *Petroleum* | $ 123,326 | $ 12,522 |
| *Interest* | 15,853 | 30,402 |
| | 139,179 | 42,924 |
| **Expenses** | | |
| *Royalties* | 42,312 | 1,061 |
| *Petroleum* | 23,846 | 4,529 |
| *Mining* | 12,980 | 18,248 |
| *General and administrative* | 198,136 | 171,999 |
| *Depletion and amortization* | 33,194 | 28,609 |
| | 310,468 | 224,446 |
| **Loss before income taxes** | 171,289 | 181,522 |
| **Income tax (recovery** | | |
| *Deferred* | (20,000) | (71,000) |
| **Net loss for the year** | 151,289 | 110,522 |
| **Retained earnings, beginning of year** | 76,651 | 187,173 |
| **Retained earnings (deficit), end of year** | $ (74,638) | $ 76,651 |
| **Loss per share for the year** | 3.8¢ | 3.0¢ |

See accompanying notes to financial statements.

# Statement of Changes in Financial Position

*Year ended December 31*

| | 1994 | 1993 |
|---|---|---|
| **Operations** | | |
| *Net Loss* | $(151,289) | $(110,522) |
| *Items not involving cash* | | |
| Depletion and amortization | 33,194 | 28,609 |
| Deferred Income taxes | (20,000) | (71,000) |
| | (138,095) | (152,913) |
| *Net changes in non-cash working capital items* | 89,694 | 81,725 |
| | (48,401) | (71,188) |
| **Financing** | | |
| *Issuance of share capital (note 3)* | | |
| For cash | 170,000 | 10,000 |
| For acquisition of mineral claims | 16,000 | 24,000 |
| | 186,000 | 34,000 |
| *Redemption of share capital* | (10,500) | (48,240) |
| *Reclamation Bond* | (7,500) | 56,876 |
| | 168,000 | 42,636 |
| **Investing** | | |
| *Property and equipment* | (264,449) | (231,606) |
| **Decrease in cash** | (144,850) | (260,158) |
| **Cash, beginning of year** | 498,356 | 758,514 |
| **Cash, end of year** | $ 353,506 | $ 498,356 |

See accompanying notes to financial statements.

# Notes to Financial Statements

*December 31, 1994*

## 1. SIGNIFICANT ACCOUNTING POLICIES

### *Mining Properties*

All costs related to the acquisition of, exploration for, and development of mineral properties are capitalized. Upon commencement of production, the related accumulated costs are amortized against future income from the project using the unit-of-production method. Costs which are not considered economically recoverable through mining operations, through sale of reserves, or which are related to projects that are allowed to lapse, are expensed.

When mineral properties are optioned or sold, proceeds will be credited to the cost of the property. If no future capital expenditure is required and proceeds exceed cost, the amount is reported as a gain.

### *Oil and Gas Properties*

The Company follows the full cost method of accounting for oil and gas operations. Under this method, all costs associated with the acquisition of, exploration for, and development of oil and gas reserves are capitalized. Proceeds from the disposition of properties will be applied as a reduction of the cost of the remaining assets, except when a significant disposition occurs, in which case a gain or loss on disposal is recorded. A significant disposition would cause a change of 20% or more in the depletion and amortization rate. Depletion is calculated using the unit-of-production method.

The company provided for the estimated cost at current prices of abandoning oil and gas properties and restoring land associated with such properties based upon current environmental and other regulations. Such costs are being accumulated over the estimated lives of the properties using the unit-of-production method. The annual charge is recorded as depletion, with the accumulated amount recorded as a long-term liability.

The company calculates a "cost ceiling" which limits the capitalized costs less accumulated depletion, site restoration costs and deferred income taxes to the sum of the following:

(i) The estimated undiscounted future net revenue derived from proved reserves net of site restoration costs, financing costs, production related general and administrative costs and income taxes; and
(ii) Unproved properties at cost less impairment.

### *Joint Venture Activities*

The accounts reflect only the company's proportionate interest in exploration and production activities conducted jointly with others.

### *Office Equipment*

Office equipment is recorded at cost and amortized on the declining balance method at 20% to 30%.

## 2. PROPERTY AND EQUIPMENT

| | December 31, 1994 | | |
|---|---|---|---|
| | **Cost** | **Accumulated Depletion and Amortization** | **Net** |
| Mining properties | **$1,746,228** | **$190,742** | **$1,555,486** |
| Oil and gas properties | **363,734** | **39,398** | **324,336** |
| Office equipment | **24,755** | **18,248** | **6,507** |
| | **$2,134,717** | **$248,388** | **$1,886,329** |

| | December 31, 1993 | | |
|---|---|---|---|
| | Cost | Accumulated Depletion and Amortization | Net |
| Mining properties | $1,729,458 | $187,420 | $1,542,038 |
| Oil and gas properties | 112,733 | 9,190 | 103,543 |
| Office equipment | 24,755 | 16,310 | 8,445 |
| | $1,866,946 | $212,920 | $1,654,026 |

The company has non-producing mining properties with a net carrying value of $1,556,486 (1993 - $1,542,038) and non-producing oil and gas properties with a net carrying value of $93,385 (1993- $47,090) which have not been depleted.

## 3. SHARE CAPITAL

*(a) Authorized*

An unlimited number of common shares, without nominal or par value.

*(b) Issued*

| | Number of Shares | Amount |
|---|---|---|
| Issued to December 31, 1993 | 3,682,724 | $2,004,928 |
| Share transactions during 1994 for: | | |
| Acquisition of mineral claims | 22,069 | 16,000 |
| Issuance of flow-through shares | 340,000 | 170,000 |
| Redemption of shares | (20,000) | (10,000) |
| Issued and outstanding at December 31, 1994 | 4,024,793 | $2,180,428 |

Pursuant to the terms of various flow-through share agreements, the company agreed to issue common shares, in consideration for the company incurring or causing to be incurred, Canadian Exploration Expenditures as defined in the Canadian Income Tax Act. Such expenditures are deductible for income tax puposes only by the investors and accordingly are not available to the company.

*(c) Stock Options Outstanding*

| Date of Issue | Exercise Price | Number of Options | Expiry Date |
|---|---|---|---|
| February 23, 1994 | .55 | 345,000 | February 23, 1999 |

*(d) Share Redemption*

Pursuant to a Normal Course Issuer Bid, the company acquired and cancelled 20,000 shares (1993 - 54,000 shares) at an average price of $0.52 per share (1993- $0.90 per share).

## 4. LOSS PER SHARE

Loss per share is calculated using the weighted average number of common shares outstanding during the year. There would be no significant dilutive effect on loss per share as a result of the share options being exercised.

## 5. INCOME TAXES

Due mostly to the renunciation to investors of exploration expenditures allowable for income tax purposes under agreements for the issue of flow-through shares, the book value of the company's resource properties exceeds tax value by approximately $645,000.

The provision for deferred income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate to income before deferred income taxes. The computation of the provision, which requires adjustment for non-taxable and non-allowable items, is as follows:

| | **1994** | 1993 |
|---|---|---|
| Loss before provision for deferred income taxes and income tax recovery | **$171,289** | $181,522 |
| Deduct | | |
| Other | **43,549** | 29,385 |
| Loss for tax purposes | **$127,740** | $152,137 |

At December 31, 1994, the company has accumulated income tax losses which have not been reflected in these financial statements. These losses are available to reduce taxable income in future years through to 2001 and amount to $340,842.

## 6. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

## 7. SEGMENTED INFORMATION

| | December 31, 1994 | | | |
|---|---|---|---|---|
| | Petroleum | Mining | Interest | Total |
| Revenue, net of royalties | $ 81,014 | $ — | $ 15,853 | $ 96,867 |
| Operating costs | (23,846) | (12,980) | — | (36,826) |
| Depletion and amortization | (31,256) | — | — | (31,256) |
| Operating income (loss) | $ 25,912 | $ (12,980) | $ 15,853 | 28,785 |
| Less: | | | | |
| General and administrative | | | | 198,136 |
| Amortization | | | | 1,938 |
| Income taxes | | | | (20,000) |
| Net loss | | | | $ (151,289) |
| Identifiable assets | $ 324,336 | $1,555,486 | | $1,879,822 |
| Additions to property, equipment | $ 251,001 | $ 13,448 | | $ 264,449 |

| | December 31, 1993 | | | |
|---|---|---|---|---|
| | Petroleum | Mining | Interest | Total |
| Revenue, net of royalties | $ 11,461 | $ — | $ 30,402 | $ 41,863 |
| Operating costs | (4,529) | (18,248) | — | (22,777) |
| Depletion and amortization | (26,053) | — | — | (26,053) |
| Operating income (loss) | $ (19,121) | $ (18,248) | $ 30,402 | (6,967) |
| Less: | | | | |
| General and administrative | | | | 171,999 |
| Amortization | | | | 2,556 |
| Income taxes | | | | (71,000) |
| Net loss | | | | $ (110,522) |
| Identifiable assets | $ 103,543 | $1,542,038 | | $1,645,581 |
| Additions to property, equipment | $ 129,596 | $ 102,010 | | $ 231,606 |

# Corporate Information

*BOARD OF DIRECTORS*
Stanley J. Stricker, Calgary
Jerry D. Blackwell, Vancouver
Michael S. Mann, Calgary
Peter McKenzie-Brown, Calgary

*OFFICERS*
Stanley J. Stricker, President
Susan J. Stricker, Secretary-Treasurer

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Petroleum Engineer: Raymond A. Nerland
Petroleum Landman: Robert G. Davidson

*SOLICITORS*
Macleod Dixon, Calgary

*AUDITOR*
Garry W. Luna, Calgary

*BANKER*
Bank of Montreal

*REGISTRAR AND TRANSFER AGENT*
Montreal Trust, Calgary

*STOCK EXCHANGE LISTINGS*
Alberta Stock Exchange
Symbol: SB

OTC Bulletin Board
Symbol: SBMCF

*ANNUAL MEETING*
Stratabound Minerals Corp.'s annual meeting will be held at the company's registered office at Macleod Dixon, 3700 Canterra Tower, 400 - 3rd Avenue S.W., Calgary, Alberta on June 28, 1995 at 2:00 p.m.

Stratabound
MINERALS CORP.

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